

## First Quarter 2012 Mutual Fund Commentary RS High Yield Fund

### Performance

(Average Annual Total Returns as of 3/31/2012)

RS High Yield Fund (Class A – GUHYX)

	First Quarter 2012	1-Year	3-Year	5-Year	10-Year	Since Inception (9/01/98)
without sales charge	5.26%	5.83%	18.33%	6.46%	7.47%	5.96%
with maximum sales charge	1.35%	1.81%	16.80%	5.66%	7.06%	5.66%
Barclays U.S. Corporate High-Yield Bond Index <sup>1</sup>	5.34%	6.45%	23.87%	8.10%	9.24%	7.19%

*Performance returns for periods of less than one year are not annualized.*

### Fund Highlights

- The RS High Yield Fund (the “Fund”), underperformed its benchmark, the Barclays U.S. Corporate High Yield Bond Index (the “Index”) in the first quarter of 2012. Sector selection was the main factor in relative performance.

### Portfolio Overweights

- The energy sector contributed positively to the Fund’s relative performance. Although the sector underperformed and we were overweight, the Fund benefitted from positive security selection.
- The Fund was overweight in media excluding cable and life insurers, which outperformed.

### Portfolio Underweights

- Underweights in the outperforming banking and consumer cyclical services and home construction detracted from relative performance, while our underweight in cable companies contributed.
- The Fund was underweight building materials, which detracted from relative performance. It also was underweight in the wireline communications and Native American gaming sectors, which contributed.
- The Fund also underweighted credits with exposure to countries that have a weak sovereign profile.

**Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. The performance quoted, “with maximum sales charge” reflects the current maximum sales charge of 3.75%. The Fund’s total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.14%/0.85%. Performance results assume the reinvestment of dividends and capital gains. Performance current to the most recent month-end, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: [www.RSinvestments.com](http://www.RSinvestments.com).**

The Fund is the successor to The Guardian High Yield Bond Fund; performance shown includes performance of the predecessor fund for periods prior to October 9, 2006. The net expense ratio reflects a contractual expense limitation which will continue through 4/30/11. The views expressed in the portfolio manager commentaries are those of the Fund’s portfolio manager(s) and are subject to change without notice. Please refer to the most current Fund prospectus for complete details on expenses including fees. Please read the prospectus carefully for more information on sales charges as they do not apply in all cases and if applied are reduced for larger purchases. Certain share classes are subject to lower maximum sales charges whether paid at the time of purchase or deferred. A “deferred sales charge” also known as “back end load” or “CDSC” is incurred when liquidating an A share purchase over \$1 million, for example, before a specified holding period. Any sales charges are in addition to the Fund’s fees and expenses as detailed in the Fund’s most current prospectus. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release.

## Market Overview

- The markets swung into risk-on mode in the first quarter of 2012, with investors embracing risk as decisively as they had shunned it at other times during the past year.
- While sovereign debt problems and recession in Europe continued to dominate the headlines, massive lending to European banks by the European Central Bank (ECB) has restored some sense of stability and there has been progress toward establishing adequate bailout funds in the euro zone.
- In the US, the unemployment rate fell and investors grew more confident that the recovery is gaining traction. The Federal Reserve (the “Fed”) continues to signal its willingness to stimulate the economy if necessary.
- Given these positive developments non-Treasury fixed income sectors gained, while the traditional safe haven of Treasuries lost some appeal. The Treasury market, as measured by the Barclays U.S. Treasury Index, returned -1.29%.
- The Barclays U.S. High Yield Bond Index<sup>1</sup> was up 5.34% in the first quarter after gaining 4.98% last year.

## Outlook

- Spreads in most sectors narrowed significantly in the first quarter, but we still find valuations attractive in multiple sectors.
- We expect moderate U.S. GDP growth at or slightly above 2% this year, up from 1.6% in 2011. We expect core inflation to hold at about 2% year over year.
- Our better-than-consensus view on unemployment is that it will fall to 7.8% or slightly below by year end. Blue Chip consensus and Fed projections are for 8.1% to 8.5% unemployment by year end. Despite our more optimistic view on employment, we are forecasting restrained growth of 2% in real disposable income and consumer spending.
- The Fed has said it plans to keep the Fed Funds target rate at zero to 0.25% into 2014, and it continues to use unconventional policy tools to provide additional monetary stimulus. We believe the Fed is prepared to intervene further if the economy falters or contagion risks from Europe escalate.
- Although they are improving, still-high unemployment and a weak housing market should continue to constrain economic growth. We expect housing prices to decline up to another 3% this year, but we believe this could be the bottom. A firmer conviction that home prices have hit bottom would support housing activity and the economy.
- Heavy lending to banks by the ECB has helped to stabilize the situation in Europe, postponing concerns about banking system liquidity into at least 2013. But the problems emanating from Europe continue to be a key wildcard for the markets. Our greatest concern is that Italy and Spain, the third and fourth largest economies in Europe, could have their credit ratings cut to below investment grade. We believe that this would also trigger many corporate downgrades and would most likely be a significant market event.
- Given the tentativeness of the U.S. recovery and the seriousness of the problems in Europe, we believe investors are likely to remain skittish and markets should remain volatile.

## Fund Commentary

### Performance

The Fund (Class A shares), returned 5.26%, excluding sales charges, for the first quarter ended March 31, 2012, underperforming its benchmark, the Barclays Capital U.S. Corporate High Yield Bond Index (the “Index”), which returned 5.34% for the same period.<sup>1</sup>

<b>(As of 3/31/2012)<sup>2</sup></b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
RS High Yield Bond Fund (Class A) Average Annual Total Return	5.83%	18.33%	6.46%	7.47%
Lipper <sup>1,2</sup> High Current Yield Funds Average Annual Total Return	4.64%	20.47%	5.69%	7.46%
Lipper High Current Yield Funds Category Ranking*	141/500	330/424	145/362	140/245

Lipper High Current Yield Funds Category Percentile	29%	78%	40%	57%
--	-----	-----	-----	-----

*\*Lipper rankings are based on total return with dividends reinvested and do not take into account or reflect sales charges.*

### **Market Overview**

The markets swung into risk-on mode in the first quarter of 2012, with investors embracing risk as decisively as they had shunned it at other times during the past year. While sovereign debt problems and recession in Europe continued to dominate the headlines, massive lending to European banks by the ECB restored some sense of stability, and investors drew confidence from signs of momentum in the U.S. economic recovery.

Perhaps most importantly, the US unemployment rate improved substantially in recent months, falling to 8.2% in March. The number of people filing initial unemployment claims also hit a four-year low as the pace of layoffs slowed. These developments created confidence that recent unexpectedly strong labor market indicators were not a fluke. By saying it plans to keep interest rates near zero into 2014 and leaving open the possibility of additional stimulus, the Fed signaled its continued willingness to intervene if the US economy backslides. Investors finally seemed reassured enough to seek out yield, which has been unattractively low in Treasuries.

Equities and non-Treasury fixed income sectors gained, while the traditional safe haven of Treasuries lost some appeal. Overall, lower-rated credits outperformed higher-rated ones, and some corporate sectors, most notably financials and industrials, recouped the excess return they had lost in 2011.

This positive economic and market environment combined with sound corporate fundamentals, a low default rate and record mutual fund inflows to create a robust first quarter for our benchmark Index. The high yield default rate was 1.86%, well below the 25 year average of 4.21%. The period set records for new issuance, which soared to \$106 billion. Demand for the credits was correspondingly intense, with inflows to retail high yield funds hitting an astonishing \$18.8 billion during the quarter. This was more than the entire \$15.6 billion in inflows for all of 2011. While inflows have slowed, they remain positive and continue to provide a favorable backdrop.

### **Portfolio Review**

We positioned the portfolio for moderate spread tightening entering the first quarter as we believed the high yield sector was attractive both on a fundamental basis and compared with other asset classes. We did not take a more aggressive approach, as we still believe that exogenous factors such as a potential slowdown in China or the sovereign crises in Europe could overwhelm positive fundamentals.

During the quarter, we overweighted the oil field services segment within energy, media excluding cable and wireless communications, which we believed had positive fundamentals. We underweighted banking, wireline communications, and building suppliers and home construction, which we believe may continue to be weak this year.

Our healthcare holdings outperformed the sector Index by 0.23% for the quarter, and our focus on security selection aided performance. Convatec, and Apria led the outperformers.

Despite the strong first quarter, we have grown increasingly cautious about healthcare. The reimbursement outlook for providers is growing more uncertain as healthcare has become a hot button topic in Washington. We have been reducing some of our positions, particularly in hospitals and other credits that rely heavily on government reimbursements, and we expect to continue this reduction.

Our energy holdings outperformed the Index by 0.10% for the quarter, as a result of strong security selection. We have been very positive on energy, as the shale boom in the U.S. and Canada has increased production and attracted large multinational players who seek expanded production in an area that does not suffer from geopolitical risk. We concentrated our positions on companies such as Connacher Oil and Gas that have extensive oil production and reserves. We expect oil prices to remain

high in the face of demand from emerging markets and geopolitical issues, particularly Iran. We have deemphasized exposure to natural gas because we expect prices to stay low for the foreseeable future as new drilling techniques unlock vast reserves and contribute to a glut of supply. We continue to overweight energy based on fundamentals. We also see potential for mergers and acquisitions that could benefit bondholders.

We underperformed in the banking sector by 0.14% due to our underweight in this surging sector. Among our holdings in the sector, RBS underperformed. Much of the high yield banking sector is comprised of hybrid and equity-like instruments of institutions that are under some form of stress. Although we have added to the sector and we believe these additions will begin to pay off in the second quarter, we currently are not comfortable with some of the weaker securities in the banking index. We remain cautious, but we are optimistic about the new positions that have met our investment standards.

Our underperformance in the metals and mining sector was due to one holding, American Rock Salt. The company is the largest U.S. producer of rock salt. Its mine, located in upstate New York, has over a 100-year supply of salt that is primarily used for melting snow and ice, and it is perfectly positioned for the heavy snowfall that typically occurs in the Northeast. Unfortunately, the weather did not cooperate, and one of the warmest, least snowy winters on record pressured the company's results and created negative sentiment around the company. We exited the position as the company has very limited opportunity to recover before the fourth quarter. Without a positive catalyst, we saw no reason to hold on.

## **Outlook**

The outlook for the high yield market remains favorable, in our view, as progress in the U.S. and Europe has provided firmer footing for risk assets. Certainly the banking system liquidity issue has been firmly kicked into at least 2013.

We expect to see moderate spread contraction as investor tolerance for risk expands. We also expect strong corporate fundamentals, most notably positive earnings momentum and balance sheet improvements. Further, improved corporate liquidity and a lack of bond maturities should continue to support a low default rate over the next two years, which sets a positive tone for the market. Even if U.S. economic growth were to disappoint this year, we do not believe our outlook for a benign default rate would substantially change. Many below investment grade companies have taken advantage of the low interest rates available over the past two years to refinance their debt on favorable terms. As a result, there are almost no high yield bonds due to mature this year, and only about \$35 billion in loans coming due.

However, the problems that have periodically sent investors fleeing into risk-off mode over the past year haven't suddenly vanished. The U.S. economic recovery is modest and is constrained by stubbornly high unemployment and an overhang from the housing market. Europe's debt problems are not yet behind it, and they continue to pose contagion risk to the global economy and banking system. Ongoing regulatory and structural changes, particularly in the financial sector, continue to create uncertainties and challenges. And geopolitical stresses and high energy prices could crimp global economic growth. As a result of these persistent problems, we think economies and markets remain vulnerable to downturns and investors are likely to remain bipolar in their attitudes toward risk. Market volatility will continue to be an issue.

We are mindful of the ongoing need for rigorous credit analysis given the potential of high yield to be volatile in response to economic and market uncertainty, but our overall outlook is positive. We think valuations reflect the current uncertainties, and there is additional upside potential in high yield even if the U.S. economy grows more slowly than expected. In fact, in our view, economic growth that is not strong enough to force the Fed to raise interest rates should continue to enhance the appeal of the high yield market. With money market rates near zero and investment grade bond yields at current lows, many investors are looking for additional yield. Although we can't predict future yields, moderately improving growth together with low inflation has historically been an ideal backdrop for higher yielding assets.

With the Index trading at a spread of 6.17% to Treasuries, the asset class remains attractive. We expect to see strong inflows from retail and institutional investors. We anticipate that any rise in Treasury yields for 2012 will be manageable and will be easily absorbed since high yield spreads remain above their long-term average.

Based on our fundamental and technical outlook, we expect to find buying opportunities in higher-rated, shorter duration credits, since valuations are attractive by historical standards. We may also buy lower-rated paper where we see opportunity.

We will seek to avoid low yielding, longer duration paper where we believe the yields do not support the potential credit risk or the potential for a rise in Treasury rates. We expect these credits to be the most susceptible to a moderate rise in interest rates. Although we are becoming increasingly concerned about the potential for rising interest rates, we are still willing to take on some extra duration where we think there is favorable upside and tightening potential. We will seek to avoid credits with direct exposure to the European crisis.

Taking advantage of companies with potential for positive events and avoiding companies with potential negative event risk will be a key to the Fund's performance in 2012. We believe that mergers and acquisitions and leveraged buyout activity should dramatically increase in 2012, as should leveraged recapitalization. Seeking companies with tight covenants, where the bonds might be called at a premium, will be a major focus of the Fund.

Sectors we currently believe offer favorable fundamentals include food and beverage, media excluding cable, technology and independent energy. We will consider making selective investments in sectors about which we remain cautious, such as refining, gaming, building suppliers and construction machinery. We will be keeping an extremely close eye on Europe and are ready to adopt a more cautious stance if we believe it is appropriate.

We will continue to adhere to our disciplined investment process through the different economic cycles. As always, we greatly appreciate the confidence you have shown in us and welcome the opportunity to continue helping you meet your investment needs.

Sincerely,



Kevin Booth  
Co-Portfolio Manager



Marc Gross  
Co-Portfolio Manager



Howard G. Most  
Co-Portfolio Manager

*Guardian Investor Services LLC, the Fund's sub-adviser*

The foregoing is the opinion of the Fund's management team as of the date of this report and is subject to change without notice.

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Bond funds are subject to interest rate risk, credit risk and prepayment risk. When interest rates rise, bond prices generally fall, and when interest rates fall, bond prices generally rise. Currently, interest rates are at relatively low levels. Please keep in mind that in this kind of environment, the risk that bond prices may fall when interest rates rise is potentially greater.

Derivative transactions can create leverage and may be highly volatile. It is possible that a derivative transaction will result in a loss greater than the principal amount invested and the Fund may not be able to close out a derivative transaction at a favorable time or price.

High yield bond investing includes special risks. Investments in lower rated and unrated debt securities are subject to a greater loss of principal and interest than investments in higher rated securities. Any discussions of specific securities should not be considered a recommendation to buy or sell those securities. Fund holdings will vary.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, is as of March 31, 2012.

**Mutual funds are offered by prospectus only. You should carefully consider the investment objectives, risks, charges and expenses of the RS Funds before making an investment decision. The prospectus contains this and other important information. Please read it carefully before investing or sending money. To obtain a copy, please call 800-766-3863 or visit [www.RSinvestments.com](http://www.RSinvestments.com).**

**Bond Quality<sup>3</sup>  
(As of 3/31/2012)**

	<b>% Fund</b>
Other Assets and Liabilities	4.7%
AAA	0.0%
BBB	0.0%
BB	28.9%
B	47.3%
CCC	17.2%
Below CCC	0.8%
Not Rated	1.2%

**Top Ten Holdings<sup>4</sup>  
(As of 3/31/2012)**

	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>% Fund</b>
Clear Channel Communication, Inc.	3.890	1/28/2016	1.05%
Reynolds Group Issuer, Inc.	9.880	8/15/2019	1.03%
Block Communications, Inc.	7.250	2/1/2020	1.03%
Lawson Software, Inc.	11.500	7/15/2018	1.02%
E*Trade Financial Corp.	12.500	11/30/2017	0.98%
Michael Foods, Inc.	9.750	7/15/2018	0.93%
Sabra Health Care L.P.	8.130	11/1/2018	0.92%
The Neiman Marcus Group, Inc.	10.380	10/15/2015	0.86%
Dolphin Subsidiary II, Inc.	7.250	10/15/2021	0.86%
Burlington Coat Factory Warehouse Corp.	10.000	2/15/2019	0.77%

Distributed by: Guardian Investor Services LLC (GIS), 7 Hanover Square, New York, NY 10004.

*Not a Deposit | Not FDIC or NCUA Insured | May Lose Value | No Bank or Credit Union Guarantee*

GIS is a member: FINRA, SIPC.  
©2012 RS Investment Management Co. LLC

<sup>1</sup> The Barclays Capital U.S. Corporate High Yield Bond Index is generally considered to be representative of the investable universe of the U.S.-dominated high-yield debt market. The Barclays Capital U.S. Corporate High Yield Bond Index is not available for direct investment and there are no expenses associated with it, while there are expenses associated with the Fund. The Lipper High Current Yield Objective Average is the average of the funds in the group in existence in the Lipper database for the periods and does not reflect any deduction for sales charges.

<sup>2</sup> Lipper, Inc. is an independent mutual fund monitoring and rating service. Its database of performance information is based on historical returns, which assume the reinvestment of dividends and distributions and the deduction of all fund expenses. Lipper return figures do not reflect the deduction of any sales charges that an investor may pay when purchasing or redeeming shares of the Fund.

<sup>3</sup> The credit rating table displays the % of fund assets allocated to each rating. Rating agencies' independent ratings of individual securities are aggregated by Barclays and market weights are reported using Standard & Poor's letter rating conventions. Rating methodology uses the middle rating of Moody's, Standard & Poor's and Fitch. When a rating from only two of the rating agencies is available the lower rating is used.

<sup>4</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual bonds.